

VZCZCXYZ0010
RR RUEHWEB

DE RUEHPU #0204/01 0271317
ZNY CCCCC ZZH
R 271317Z JAN 06
FM AMEMBASSY PORT AU PRINCE
TO RUEHC/SECSTATE WASHDC 2217
INFO RUEHZH/HAITI COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L PORT AU PRINCE 000204

SIPDIS

SIPDIS

STATE FOR WHA/CAR
EB/IFD/OMA
EB/IFD/ODF
WHA/EPSC
S/CRS
TREASURY FOR JEFFREY LEVINE
STATE PASS AID FOR LAC/CAR
USDOC FOR 4322/ITA/MAN/WH/OLAC (SMITH, S.)

E.O. 12958: DECL: 01/27/2015

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [HA](#)

SUBJECT: HAITI: FISCAL PRESSURES AS INTERIM GOVERNMENT
PREPARES FOR TRANSITION

REF: PORT AU PRINCE 0114

Classified By: Deputy Chief of Mission Douglas Griffiths.
Reason 1.5 (d) and (e)

¶1. (C) SUMMARY: The IMF ResRep told Econ Counselor that IGOH performance under EPCA II was satisfactory, despite some problems at the end of the year with Central Bank financing. Tax receipts and spending are up, and the IGOH is exploring the possibility of subsidies to avoid a fuel price hike. The IMF's projection of the financing gap remains USD 31 million, in contrast to the lower IGOH estimate. Given the high price of petroleum and pressures for new spending by the newly elected government, we fear the gap could grow. The IMF is moving ahead with its plans for a Poverty Reduction and Growth Facility (PRGF) in 2006. END SUMMARY.

¶2. (SBU) Economic Counselor met January 25 with IMF ResRep Ugo Fasano to go over IGOH economic performance in its last days in office. Fasano said that overall IGOH performance under EPCA II was satisfactory. The IGOH ran into trouble at the end of December when expected disbursements from the World Bank and the IDB were delayed due to problems meeting conditionality, specifically audits of some public enterprises. The IGOH resorted to Central Bank financing to cover the shortfall, which had the negative effect of causing some inflation and depreciation of the Gourde. However, the loan conditions have now been met. The IGOH expects the disbursement soon and will repay the Central Bank.

Tax Receipts and Spending Up

- - - - -

¶3. (SBU) Fasano confirmed the Finance Minister's description of the fiscal situation (see reftel) and said that spending and tax receipts were above planned levels. Revenue was up because of better Customs administration at the port but, simultaneously, spending was up due to costs associated with implementing elections and fighting insecurity in the capital. Fasano agreed that some of the additional spending was caused by Ministers who wanted to get public works projects under way before IGOH leaves office, but that the spending itself was not bad. He saw no evidence of corruption, but noted that Finance Minister Bazin is under a lot of political pressure from his colleagues to spend, spend, spend.

Price of Petroleum a Problem; Canadians to the Rescue?

- - - - -

¶4. (C) A larger problem looming ahead is the price of petroleum. The IGOH based its FY 2006 budgeting on an estimate of USD 40 per barrel for the year, but now the price is over USD 60. According to a set formula based on global prices, the IGOH needs to raise gasoline prices 20 percent in the coming weeks. However, the IGOH is loath to do so, and has approached the Canadian government for a grant of USD 8 million to subsidize the price of fuel. The 8 million would allow the IGOH to avoid a gasoline price rise until the end of March. The GOC has said it will consider providing USD 5 million, but has not yet made a final decision, according to Fasano.

Financing Gap Could Grow

- - - - -

¶5. (SBU) The IMF,s most recent projection of the financing gap for the second half of the fiscal year remains USD 31 million. This contrasts with Minister Bazin,s lower estimate (reftel), but Fasano believes that Bazin is including a USD 12 million grant to close the financing gap promised by the EU following good, clean elections. The IMF, the ResRep said, is not as certain that the EU money will ever arrive.

Moving Ahead Quickly with a PRGF

- - - - -

¶6. (SBU) Looking ahead, Fasano said that the IMF is prepared to send a team to Haiti as early as February, between the first and second rounds of the election, in order to meet with the two Presidential candidates in the run-off to discuss a future Poverty Reduction and Growth Facility for Haiti (PRGF). The program could be negotiated in the spring, go to the IMF Board for a vote in the summer, with the program taking effect October 1, 2006.

¶7. (C) COMMENT: We fear the financing gap could grow. If the price of oil remains high, government spending would likely rise above planned levels. We note that a new Parliament will soon be in session and that could lead to higher spending, even on simply repairing the neglected Parliament building. Local elections and unanticipated spending by newly elected officials, eager to deliver the goods to constituents, will likely put upward pressure on spending as well. Subsidizing the price of gasoline in general is a bad idea; in this case even worse as the IGOH would leave a nasty legacy for the newly elected government when money for subsidies runs out just as it takes office.
END COMMENT.

CARNEY